

CIA/OER/S-06781-75 BACKGROUND NOTES ON MTN
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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

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CIA/OER/S-06781-75

CIA Control No. 9515-75
14 February 1975

MEMORANDUM FOR: Mr. Andrew Safir
Office of Justice Policy and Planning
Department of Justice

SUBJECT : Background Notes on the MTN

The attached background notes for Mr. Silberman's
use are in response to your recent request. If you have
any questions in this area, please call me or

on IDS code 143, extension 7717.

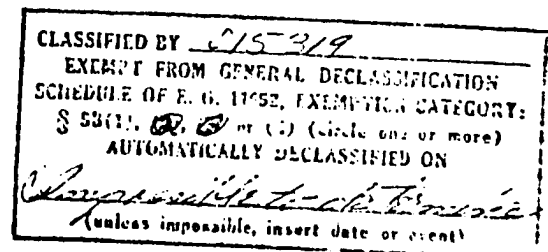
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Trade and Monetary Analysis Branch
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BACKGROUND NOTES ON THE MTN

LAYING THE GROUNDWORK

The initiative for the Multilateral Trade Negotiations (MTN) was taken by President Nixon on 15 August 1971. Existing trading rules and procedures clearly had contributed to the unacceptable erosion in the US trade and payments balances. Negotiations were needed on new rules better reflecting world economic conditions.

- The emergence and enlargement of the EC, and the negotiation by the Community of agreements with non-members, threatened to erode the most-favored nation (MFN) principle in trade.
- Obstacles to international trade in agriculture, particularly by EC and Japan, continued to insulate this important sector from market forces, inhibiting progress on reduction of trade barriers in other sectors.
- The restrictive trade rules and practices many foreign countries developed in their successful efforts to achieve trade surpluses persisted despite the decline in US economic preeminence and the need for greater international equity.

The "Tokyo Round" of trade negotiations officially opened at the GATT ministerial meeting in Tokyo in September 1973. Delegations from over 80 nations attended and adopted a declaration of objectives. The declaration established six preliminary negotiating areas: tariffs, non-tariff barriers, sectors, safeguards, agriculture, and tropical products. It further committed the MTN participants to consider the needs of the less developed countries throughout the negotiations.

These negotiations are the most ambitious ever attempted. Not only will tariffs be negotiated, but non-tariff barriers (NTBs) will be a major topic of discussion for the first time. Efforts will be made to reform the GATT safeguards mechanism (Article XIX) and to guarantee raw material and agricultural supply and market access.

Since the Tokyo Declaration, technical preparations have been underway in the six negotiating areas. Groups were established for each area. The groups have attempted

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to organize the necessary data and have completed some preliminary technical analysis. They have also provided an opportunity for the delegations to outline their early positions. The work of the six groups and country positions in each, to date, are reviewed in the appendix.

RECENT DEVELOPMENTS

Despite the precipitous rise in oil prices and emergence of widespread "stagflation" since the Tokyo meeting, many of the participants' of the basic positions remain unchanged. Certain countries have voiced concern about liberalizing trade in the midst of a recession and rising concern is evident within the EC, particularly in France and Italy, that new trade concessions might increase domestic unemployment.

25X6 Assured access to goods in short supply has become a major issue since the Tokyo conference. [REDACTED] 25X6 EC favor substantial limitations on the use of export controls. [REDACTED] on the other hand, regard control over raw material supplies as their main bargaining chip. The less-developed raw material supplies prize their new-found market power, and will try to maximize benefits without conceding freedom to restrict supplies.

COUNTRY POSITIONS

THE EUROPEAN COMMUNITY

TARIFFS

The EC mandate provides for harmonization of tariffs, with reductions from 25% - 50% on industrial products. The mandate leaves open the possibility that agricultural tariffs may also be reduced if progress on international commodity agreements is achieved.

The EC -- primarily France -- is opposed to a goal of zero tariffs. Zero tariffs make the EC's Common External Tariff (EXT) meaningless, and Paris regards the CXT as a linchpin of Community unity.

NON-TARIFF BARRIERS (NTBs)

The EC advocates a case-by-case approach to NTB negotiations. They want the negotiations directed towards

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those barriers which create the greatest obstacles to international trade. The Community is opposed to MFN application of NTB agreements.

The EC has not yet prepared a negotiating list of NTBs. The EC has, however, mentioned subsidies, countervailing duties, anti-dumping regulations, customs valuation, and tariff nomenclature in its proposed guidelines. One source reports that the EC Commission wants to maintain a "low posture" on countervailing duties. Not all member countries, however, support the Commission's view.

25X6A The EC, prompted by [REDACTED] wants to discuss export restrictions in the context of non-tariff barriers during the early stages of the negotiations. The Community presently is undecided on whether to seek long-term agreements (favored by France) or "codes of conduct" (supported by [REDACTED]). The EC is anxious to achieve an agreement on export controls because of its dependence on raw material imports.

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AGRICULTURE

The Community policy on agriculture is well established. It is based on the Common Agricultural Policy (CAP). France, the prime beneficiary of the CAP, regards it along with the CMT, as the cement which binds the Community together. It opposes any negotiations which would undermine its basic principles.

The French position manifests itself in EC insistence that a separate agricultural group be retained for the negotiations. This would isolate agricultural issues from other trade questions, and make parallel progress more difficult. While other members oppose this rigidity, a new paragraph was recently added to the EC mandate which reiterates the position.

The EC seeks international agreements in agricultural products as a means of liberalizing agricultural trade. By combining national stocks and maximum/minimum intervention prices, the EC hopes to stabilize supplies of grains, sugar, and some dairy products. The EC has, however, offered to negotiate agricultural tariffs if progress is made on commodity arrangements.

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OTHER ISSUES

The EC presently opposes sector discussions at the outset of the negotiations. In later stages of the negotiations, the EC would probably agree to a sector-by-sector approach if it were the only feasible way to reach agreement.

The EC favors retention of GATT Article XIX (safeguards) which provides for relief from injurious import competition. While retaining the Article, the EC proposes selective application, and an international mechanism to oversee the use of the safeguard clause. The Germans and Italians opposed the selective application procedures, and since the issue was resolved only this week, it is not yet clear how EC negotiators will handle the question.

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TARIFFS

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AGRICULTURE

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APPENDIX

GROUP 3A TARIFFS

PURPOSE

The primary task of Group 3A is the "bringing up to date and completing the analytical and statistical documentation with respect to tariffs" for industrial products (BTN 25-99). This group, together with Group 3E (Agriculture), was to determine the base year(s), the unit of account, and the determination of the customs tariffs to be considered for negotiations.

ISSUES

The work on tariffs has been largely procedural -- little progress has been made (see below).

Broad outlines of various approaches to tariff reduction have emerged, however. The European Community is calling for tariff harmonization (higher duties cut by a greater percentage than lower ones). In previous negotiations, a linear cut (a straight percentage cut across the board) was used. The EC contends its tariff structure is more homogenous (and lower) than that of other major economies. A linear cut would therefore reduce the effect of the EC tariffs by a greater margin than that of its trading partners.

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TECHNICAL WORK

Group 3A has been involved in laying the technical groundwork for the negotiations, including the following areas.

UNIT OF ACCOUNT

Citing recent currency fluctuations, the EC has suggested replacing the dollar as the unit of account. It made no concrete suggestion other than alluding to the use of the SDR. The proposal was not well received; most others saw this as a non-issue, citing work done by international organizations in converting national currencies into the dollar during the period of exchange rate flexibility. The issue has been left unresolved and the dollar is still the unit of account.

TARIFF DATA BANK

The group generally supported a US proposal to establish a tariff data bank, although with the understanding that it would not prejudice the choice of base dates and base rates. A compromise was approved whereby the 1 January 1972, 1973, and 1974 data would be included. MFN (most favored nation), GSP (generalized system of preferences) rates and A.V. E (ad valorem equivalent) rates will be included. No decision was reached on the inclusion of variable levies.

BASE RATE, BASE YEAR

No decisions were reached on the base rate, although it will include the results of the Kennedy Round final cuts. The base year issue was ignored due to the difficulty of selecting one or more representative years. Since both of these items will be influenced by the ultimate decision on the tariff reduction formulae, many felt that any decision by Group 3A would be premature.

Data collection was a primary function of Group 3A, but even here delegations were cautious. The United States, for example, was reluctant to include GSP data since it is not subject to negotiated reductions. Others were reluctant to commit themselves to any base rates and base years until a clearer idea of the tariff reduction formula emerged.

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GROUP 3B NTBs

PURPOSE

The primary task is to update and complete the documentation and basic data on NTBs. It is also to examine import prohibitions, export restrictions, export subsidies, countervailing duties, packaging and labelling, and import documentation.

ISSUES

Non-tariff barrier (NTB) liberalization will be difficult to achieve. Not only are many NTBs difficult to define, but there is also a problem in determining reciprocity. The MTN participants have identified the following major areas of interest:

- a) export restrictions
- b) quantitative restrictions on imports
- c) packaging and labelling
- d) import documentation
- e) export subsidies and countervailing duties.

The European Community advocates a case-by-case elimination of non-tariff barriers, rather than a generalized solution. Moreover, the EC opposes most favored nation application of the reductions achieved. Part of the EC concern can be traced to their extensive preference arrangements with LDCs. The LDCs will push hard for further preferences. By opposing MFN treatment of NTBs, the EC hopes to win concessions from the LDCs.

There are several US NTBs which are of great interest to other industrialized countries. [REDACTED] are particularly interested in US "marks of origin" requirements, which they regard as excessively restrictive. The EC wants to discuss the US customs valuation procedure, especially the US "final list" items. Final list items are valued differently than other US imports, a practice approved by the GATT when the US signed the General Agreement. The [REDACTED] want to see liberalization of our countervailing duty applications.

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The US, on the other hand, is concerned with production standards, government procurement requirements, and export subsidies.. [REDACTED]

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There is less likelihood for success in liberalizing NTBs than tariffs. NTB importance has increased over the past few years and now causes greater trade distortion than tariffs. Since NTBs are so much a part of domestic policy, and since many (such as consumer protection requirements) are not primarily intended to restrict trade, negotiations will be difficult.

GROUP 3C SECTORS

PURPOSE

The purpose of the sector group is to examine the possibilities of reducing tariffs sector by sector (e.g. pulp and paper) from the raw material stage through the final stage of production.

ISSUES

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The other major industrialized countries oppose the sector approach. The EC fears that sector negotiations will prompt a flood of "exception requests" from domestic industry. [REDACTED] presently favors tariff reductions along linear lines but is not adverse to the sectoral approach in the last stages of the negotiations. The US is presently opposed to sector negotiations since we fear that progress will be made in reducing industrial tariffs, but not in agriculture.

GROUP 3D SAFEGUARDS

PURPOSE

The purpose of the Safeguards Group is to "examine the adequacy of the Multilateral Safeguards System, con-

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sidering particularly the modalities of application of Article XIX, with a view to furthering trade liberalization and preserving its results" (Tokyo Declaration).

ISSUES

During the first group meeting, there were divergent opinions about safeguards. The EC favors retention of Article XIX in its present form, but suggests that its application might be changed. Specifically, the EC advocates the selective application of safeguard measures against only the country (or countries) directly responsible for market disruption as opposed to application on an MFN basis. The EC also advocates the elimination of the compensation requirement.

25X6A [REDACTED] opposes any attempt to apply safeguards selectively. At the recent safeguards meeting, it rejected the EC suggestion that the Textile Agreement provided a useful precedent for selective application.

25X6A [REDACTED] sees no need to change the system and contends that problems lie in misapplication of the Article rather than in the Article itself. 25X6A [REDACTED] feels that the country taking safeguard actions should be subject to international scrutiny. This would authorize the exporting country(ies) to retaliate if the surveillance body deemed the importing country's action unjustified.

3E AGRICULTURE

PURPOSE

The purpose of this group is to examine the problems of international trade in agriculture, collect agricultural trade data for use in the negotiations, and establish guidelines for the negotiations.

ISSUES

There are significant differences among the major industrial nations on how to negotiate agricultural liberalization. The EC has stated that the basic principles of its Common Agricultural Policy (CAP) are not subject to negotiation. The structure of the CAP allows

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increases in tariffs (variable levies) when the world price for a product is lower than the domestic price, and also provides an export tax (subsidy) when the domestic price is lower than the world price. The CAP greatly reduces the rest of the world's ability to export agricultural products to the EC.

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The United States and others ([REDACTED] some LDCs) would like to see enlarged market access to the EC. The [REDACTED], along with the EC are more concerned, with guaranteed supply so that in times of shortages they can be assured of continued access.

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Apart from the broader questions of market access/ guaranteed supply, there is wide disagreement between the United States and the EC over how to conduct the agricultural negotiations. Thus far, the United States has not made a distinction between agricultural and industrial tariff reductions. Drawing upon the experience of the Kennedy Round, where agricultural discussions were "put off" while progress was made in the industrial area, the United States has sought to have the current negotiations make parallel progress on both fronts.

The EC, however, seeks to have all agricultural discussions negotiated strictly within an agricultural framework. It has resisted any attempt to place even technical questions in agriculture outside the agricultural group.

3F TROPICAL PRODUCTS

PURPOSE

The purpose of this group is to examine ways in which trade liberalization policies can be instituted for those tropical products of particular interest to developing countries.

ISSUES

The Tropical Products Group was established by the Tokyo Declaration and has functioned this year as a forum for LDC complaints about developed countries' trade barriers. The LDCs have yet to submit product lists which they would like to negotiate.

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14 February 1975

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